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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

**DOCKET FILE COPY ORIGINAL**

In the Matter of )

Policy and Rules Concerning the )  
Interstate, Interexchange Marketplace )

CC Docket No. 96-61

Implementation of Section 254(g) of the )  
Communications Act of 1934, as amended )

1998 Biennial Regulatory Review -- )  
Review of Customer Premises Equipment )  
and Enhanced Services Unbundling Rules )  
in the Interexchange, Exchange Access )  
and Local Exchange Markets )

CC Docket No. 98-183

**REPLY COMMENTS OF GTE**

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**REPLY COMMENTS OF GTE**

GTE Service Corporation and its below-listed affiliates<sup>1</sup> (collectively, "GTE") respectfully submit their Reply Comments concerning the Further Notice of Proposed Rulemaking ("FNPRM") in this docket.<sup>2</sup> The opening comments persuasively demonstrate that eliminating the restriction on bundling regulated services and unregulated services and equipment for all providers will benefit consumers and stimulate competition. The record also confirms that, in light of existing incumbent local

<sup>1</sup> GTE Alaska, Incorporated, GTE Arkansas Incorporated, GTE California Incorporated, GTE Florida Incorporated, GTE Hawaiian Telephone Company Incorporated, The Micronesian Telecommunications Corporation, GTE Midwest Incorporated, GTE North Incorporated, GTE Northwest Incorporated, GTE South Incorporated, GTE Southwest Incorporated, Contel of Minnesota, Inc., GTE West Coast Incorporated, and Contel of the South, Inc., GTE Communications Corporation, and GTE Wireless Incorporated.

<sup>2</sup> FCC 98-258 (released October 9, 1998).

exchange carrier ("ILEC") regulatory constraints, retaining the existing bundling restriction for ILECs only would be anticompetitive and unwarranted, and would deprive customers of the broadest possible array of choices.

## **I. INTRODUCTION AND SUMMARY**

The commenters overwhelmingly agree that the current unbundling policy is a regulatory anachronism. Marketplace realities and technological convergence are making it essential for competitors to offer the full range of products and services sought by customers, both individually and in combination. As long as providers continue to offer transmission services separately (in addition to bundled options), bundling raises no appreciable competitive risks.

The Commission must, however, remove the bundling restriction for all service providers to ensure maximum consumer benefits and fair competition. Preventing ILECs (or any other class of carriers) from responding to market demand for bundled offerings would amount to a regulatory determination of winners and losers and undermine the pro-competitive, deregulatory imperatives of the Telecommunications Act of 1996. In contrast, there is no realistic possibility that permitting ILECs to bundle would harm competition. If anything, the multitude of unbundling, resale, and price control regulations imposed on the ILECs render those companies far less able to distort competition than such large, vertically integrated, and effectively deregulated corporations as MCI WorldCom and AT&T/TCI/Time Warner. The proponents of asymmetrical bundling restrictions have utterly failed to demonstrate that bundling by

ILECs (and by companies sharing a corporate parent with an ILEC) would be contrary to the public interest, as opposed to their private interests in minimizing competition.

Finally, to assure consistency between the new bundling policy and the universal service goals of the Act, the Commission should require that every eligible telecommunications carrier offer at least one set of services that meets or exceeds the list of supported services but is available at a price no greater than the maximum affordable rate determined by the state commission. Such an obligation would accord with the requirements of Section 214(e) and prevent carriers that offer only high-end packages from obtaining universal service funding.

## **II. ELIMINATING THE BUNDLING RESTRICTION FOR ALL COMPETITORS WOULD PRODUCE SUBSTANTIAL CONSUMER BENEFITS AND PROMOTE COMPETITION.**

The unbundling policy was adopted two decades ago in the *Computer II* proceeding. Twenty years later, the telecommunications industry has undergone dramatic changes that eliminate any potential justification for prohibiting bundling. As SBC points out:

[a]t the time of the Computer Inquiry II proceeding, the divestiture of AT&T from the Bell Operating Companies had not occurred, competition in the local exchange and long distance markets was nonexistent and alternative providers of CPE and enhanced services did not exist. There simply was no widely available option which would permit consumers to purchase CPE and enhanced services from any provider except AT&T.<sup>3</sup>

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<sup>3</sup> Comments of SBC Communications, Inc., CC Docket Nos. 96-61, 98-183 at 3 (filed Nov. 23, 1998) ("SBC Comments").

Today, in contrast, competition has come to nearly every corner of the telecommunications services market, and there are thousands of CPE manufacturers and enhanced service providers that face virtually no barriers to entry. Similarly, "the local wireline market is today becoming increasingly competitive, and significant competition is already in place. . . . Competing carriers range from affiliates of the largest long distance telephone companies - AT&T, MCI WorldCom, and Sprint - to a myriad of smaller carriers."<sup>4</sup> The original unbundling policy conceivably performed a purpose consistent with the Commission's regulatory regime in a monopoly environment. Now, however, that policy must be eliminated to keep pace with today's evolving telecommunications marketplace.

Moreover, permitting all carriers to bundle regulated and unregulated services and products will directly advance key goals underlying the Act. Specifically, as further discussed below, bundling will "encourage the deployment on a reasonable and timely basis of advanced telecommunications capability to all Americans" as directed by Section 706.<sup>5</sup> Additionally, removing the bundling restriction is effectively mandated by Section 11, which requires the Commission to repeal any regulation that is no longer necessary to promote the public interest as the "result of economic competition between providers of such service."<sup>6</sup> Clearly, discontinuing the bundling restriction will

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<sup>4</sup> Comments of Bell Atlantic, CC Docket Nos. 96-61, 98-183 at 4 (filed Nov. 23, 1998) ("Bell Atlantic Comments").

<sup>5</sup> Public Law No. 104-104, § 706, 100 Stat. 153 (reproduced at 47 U.S.C. § 157 note).

<sup>6</sup> 47 U.S.C. § 161.

promote the public interest under this statutory standard, as it will enable consumers to reap a multitude of benefits that will flow from letting competitors meet demand unfettered by needless regulation. These benefits include:

More Consumer Choice. Removal of the bundling restriction will result in an increased variety of service and equipment offerings.<sup>7</sup> As Ameritech explains, "bundling of CPE and wireline service and CPE discounting practices can benefit consumers by offering them an expanded choice of goods and services at reduced cost."<sup>8</sup> Ameritech further notes that "this, in turn, would encourage other providers to respond by developing other innovative marketing practices as well as stimulating further competition in the wireline industry – ultimately to the benefit of consumers."<sup>9</sup> Bell Atlantic similarly observes that, with the elimination of bundling for all carriers, "[i]ncumbents and new competitors alike will offer new creative packages designed to meet customers' needs and uncover additional retail outlets through which to sell those packages."<sup>10</sup>

Reduced Consumer Barriers From High-Cost CPE. Bundling will also diminish the price to consumers of expensive CPE that often can serve as a barrier to consumer

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<sup>7</sup> In this regard, AT&T states that "the Commission's bundling restrictions serve only to limit customer choice." Comments of AT&T, CC Docket Nos. 96-61, 98-183 at 8 (filed Nov. 23, 1998) ("AT&T Comments").

<sup>8</sup> Comments of Ameritech, CC Docket Nos. 96-61, 98-183 at 17 (filed Nov. 23, 1998) ("Ameritech Comments").

<sup>9</sup> *Id.*

<sup>10</sup> Bell Atlantic Comments at 12.

demand for new services. This is particularly true for advanced services, as Ameritech shows: "In the case of new advanced services in which new-technology CPE may be high-priced, bundling of discounted CPE in connection with the purchase of the service could simulate demand for the service – especially by consumers and small businesses for whom the cost of the CPE may prove to be a burden."<sup>11</sup> Next Level likewise notes that bundling of "enhanced services, such as video, and telecommunications services, such as high-speed data, with CPE [will] not only soften the initially high, up-front equipment costs, but also allow new entrants to match the marketing packages of the incumbent, dominant broadband providers."<sup>12</sup> Removal of the bundling policy therefore will further the goals of section 706.

Expanded Deployment of New Services and Technology. Relatedly, elimination of the bundling prohibition will facilitate the deployment of telecom services and products by "mitigat[ing] risks associated with introducing new services and products."<sup>13</sup> The record strongly supports this assessment. For example, the American Petroleum Institute (API) states that "[p]erhaps the most significant benefit of bundling is the ability of customers, large and small, to deploy new technology and to look to the carrier,

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<sup>11</sup> Ameritech Comments at 15.

<sup>12</sup> Comments of Next Level Communications, CC Docket Nos. 96-61, 98-183 at 5 (filed Nov. 23, 1998) ("Next Level Comments").

<sup>13</sup> Comments of GTE, CC Docket Nos. 96-61, 98-183 at 5 (filed Nov. 23, 1998) ("GTE Comments").



systems integrator or ISP to manage both the CPE and the service.”<sup>14</sup> Bell Atlantic points out that, “[i]f carriers can provide discounted packages of services and equipment, they can, if they choose, guarantee their customers that they will always have the most advanced available equipment and services .... This type of packaged offering can promote rapid deployment of each generation of services and equipment, consistent with the requirements of the Act.”<sup>15</sup> Likewise, Next Level notes that, “[t]o ensure that new technologies and services continue to be deployed, telecommunications carriers must have the flexibility to offer a variety of bundled packages of CPE and broadband services, giving consumers the option to purchase or lease CPE.”<sup>16</sup>

Lowered Unit Costs for Telecommunications Services. As Ameritech comments, “[b]y stimulating demand, CPE bundling can help lower the cost of providing . . . services to each subscriber and enable carriers to achieve a return on their investment, thus stimulating continued investment . . . .”<sup>17</sup> BellSouth reinforces this reasoning, explaining that CPE discounts will “generate faster and more widespread sales of the new service” and observing that “the more sales the carrier is able to generate, the larger the population of users will be over which the fixed costs of the new offering may

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<sup>14</sup> Comments of American Petroleum Institute, CC Docket Nos. 96-61, 98-183 at 4 (filed Nov. 23, 1998) (“API Comments”).

<sup>15</sup> Bell Atlantic Comments at 16.

<sup>16</sup> Next Level Comments at 4.

<sup>17</sup> *Id.*

*be spread. And, by so spreading the fixed costs, carriers can achieve greater economies of scale, which in turn will lower the cost of providing service to each subscriber.*"<sup>18</sup>

Increased CPE Competition. Bundling will also increase competition among CPE manufacturers: "Promotional pricing of CPE in association with new tariffed offerings can also increase competition in the CPE marketplace and create new opportunities for independent CPE vendors to sell their products."<sup>19</sup> Bell Atlantic similarly points out that "additional service demand will increase the overall market for CPE"<sup>20</sup> and that "allowing discounted packaging can be expected to open additional distribution channels for CPE manufacturers and will increase the total market size."<sup>21</sup> And, as Ameritech explains, CPE manufacturers can enter into contracts with bundled service/equipment providers, which will enable "the manufacturer to smooth production runs for the existing generation of equipment and to speed up life cycles for new generations [and lower] production costs . . . ."<sup>22</sup>

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<sup>18</sup> Comments of BellSouth, CC Docket Nos. 96-61, 98-183 at 12 (filed Nov. 23, 1998) ("BellSouth Comments").

<sup>19</sup> BellSouth Comments at 12.

<sup>20</sup> Bell Atlantic Comments at 12.

<sup>21</sup> *Id.* at 13.

<sup>22</sup> Ameritech Comments at 17.

In short, removal of the bundling prohibition for both CPE and enhanced services will generate a wide array of significant consumer benefits. Because no telecommunications service provider manufactures CPE, and because all such providers would have to continue offering telecommunications services separately, the discrimination and market foreclosure concerns raised by the very few proponents of retaining the current policy are without foundation. Consistent with Sections 11 and 706 of the Act, the bundling prohibition should be promptly eliminated.

**III. RETAINING THE EXISTING BUNDLING RESTRICTION FOR ILECS ONLY WOULD BE UNWARRANTED AND CONTRARY TO SOUND PUBLIC POLICY.**

**A. Existing Regulation Assures that ILECs Could Not Impede Competition If Permitted To Bundle.**

As demonstrated in GTE's opening comments, an asymmetric bundling prohibition on ILECs would diminish, rather than promote, competition and consumer choice.<sup>23</sup> Current regulations already compel ILECs to (1) provide local exchange and exchange access services on a standalone basis; (2) maintain just, reasonable, and non-discriminatory rates for retail and wholesale telecommunications services; (3) allow competing telecommunications service providers to access unbundled network elements at any technically feasible point at cost-based rates; (4) offer retail telecommunications services to competing carriers at a wholesale discount, enabling them to resell those services either individually or as part of their own

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<sup>23</sup> GTE Comments at 11 - 18.

equipment/service bundles; and (5) adhere to strict cost allocation rules that assure that regulated service rates do not subsidize unregulated services and products. Even ignoring the significant competition that has emerged in local exchange markets (which makes the possibility of competitive harm even more remote), this panoply of regulations clearly prevents any anticompetitive behavior that theoretically might result from permitting ILECs to bundle.

Other commenters confirmed GTE's analysis. BellSouth, for example, points out that "LECs' resale obligations . . . make it a practical impossibility to utilize bundles to impede competition in the CPE market."<sup>24</sup> And, as Bell Atlantic summarizes:

In the case of local competition, provisions of the 1996 Act, which supplement pre-existing 1934 Act protections, ensure that competitors are fully protected. The incumbent local exchange carriers will still be required to provide unbundled network elements to their competitors and make their services available for resale. They still must comply fully with nondiscrimination requirements of the Act and the Commission's rules.

With all of these protections in place against anticompetitive conduct, there is no justification for the Commission to try to manage competition and to pick winners and losers by allowing some carriers to meet their customers' one-stop shopping needs by packaging telecommunications and enhanced services and CPE while precluding others.<sup>25</sup>

Despite the existence of these regulatory constraints, the major competitors of ILECs, which include some of the largest vertically integrated telecommunications companies in the world, seek to saddle the ILECs with discriminatory bundling

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<sup>24</sup> BellSouth Comments at 7.

<sup>25</sup> Bell Atlantic Comments at 14.

limitations in a blatant effort to neutralize them as effective competitors. The arguments raised by these companies (which are refuted below) are particularly ironic. AT&T, MCI WorldCom, and other entities seeking to hamstring the ILECs are essentially unregulated, notwithstanding their dominant presence in virtually every communications market, and thus have far greater ability than the ILECs to restrain competition:

[A]ny notion that ILECs have a greater degree of leverageable market power than do IXCs in their respective market must be seriously re-evaluated -- especially in light of recent IXC vertical integration activities. For example, it should be clear that AT&T's potential to dominate the CPE market is much greater than any ILEC's. AT&T's presence is national (in fact, international) in scope. In addition, its recent mergers have effectively combined the country's No. 1 long distance provider and No. 1 international service provider (AT&T) with the #1 cellular service provider (McCaw), the No. 1 CLEC (Teleport), and the No. 1 cable service provider (TCI). In this configuration, AT&T is capable of bringing substantial force to bear in the marketplace. Its position as a highly integrated complete one-stop-shop enables it to be in a position to wield significant influence over customer decision-making. In addition, without a stringently enforced open interface requirement, AT&T would have a significant ability [to] leverage its position inappropriately in connection with proprietary technical service/CPE offerings. MCI's recent acquisitions, while not as extreme, tend to put it in a similar position.

Compared to these international players, ILECs remain "children" in the world of "total service."<sup>26</sup>

**B. The Arguments Raised By Proponents of Imposing Discriminatory Requirements on ILECs Are Devoid of Substance or Logic.**

In their never-ending quest to bury the ILECs under an avalanche of asymmetric regulation, AT&T, MCI, and other purportedly powerless competitors trot out a parade

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<sup>26</sup> Ameritech Comments at 13-14.

of horrors that ostensibly would result from letting ILECs compete on the same basis as these global goliaths. None of their claims is even remotely meritorious.

Unspecified claims based on alleged ILEC market power. MCI asserts, without further explanation or specificity, that ILECs would have an unfair advantage if permitted to bundle due to their market power.<sup>27</sup> Nowhere, however, does MCI acknowledge (let alone discuss) the effectiveness of comprehensive existing regulation of ILECs in protecting customer choice and competition. Nor does MCI explain how ILECs possibly could impede competition in the provision of CPE and enhanced services, which are available on an unbundled basis from thousands of providers, including some of the largest companies in the world.<sup>28</sup> Assuming that ILECs retain any market power, they have no ability to exercise it.

Claims that ILECs could force customers to take ILEC-provided CPE. MCI, KMC and CEMA maintain that, if ILECs were permitted to bundle, they could force customers

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<sup>27</sup> Comments of MCI WorldCom, Inc., CC Docket Nos. 96-61, 98-183 at 14 (filed on November 23, 1998, ("MCI WorldCom Comments"). Amazingly, Sprint suggests not only that the Commission adopt asymmetrical bundling restrictions, but that these rules apply only to ILECs larger than Sprint's own ILEC operation. Comments of Sprint Corporation, CC Docket Nos. 96-61, 98-183 at 8-9 (filed on Nov. 23, 1998) ("Sprint Comments"). Sprint's proposal is not only self-serving, but unjustified. As demonstrated in GTE's opening comments and in this filing, no ILEC, regardless of size, has the ability to engage in anticompetitive activities. Thus, there is no more basis for distinguishing between dominant ILECs than there is to distinguish between ILECs and other carriers.

<sup>28</sup> In the *Cellular Bundling Order* (at ¶¶ 13, 14), the Commission dismissed concerns that cellular carriers could impede competition in the CPE market, noting that "most cellular carriers do not manufacture CPE" and the CPE market is characterized by "a robust level of competition."

to take ILEC-provided CPE.<sup>29</sup> While "pure" bundling (or "tying") requires that a customer purchase multiple goods or services in order to obtain any of the component services, "mixed" bundling – which is what the Commission appears to be proposing in this proceeding – will not restrict consumers from obtaining the components of the bundle separately. The customer (and competing service providers) can always purchase the components of those bundles separately:

Requiring the continued availability of basic transmission services without bundled CPE or enhanced services also addresses the Commission's concern about unlawful "tying arrangements." In particular, carriers will not have the ability to require a basic transmission service customer to purchase carrier-provided CPE or enhanced services, which is the most likely scenario for a tying arrangement. In any event, a threshold requirement for an illegal tying arrangement is some special ability on the part of the seller (i.e., market power) to force customers to do something they would not do in a competitive market. The markets for CPE and enhanced services are sufficiently competitive that it would be extremely difficult, if not impossible, for any carriers to successfully exercise market power. If necessary, the antitrust laws would provide more than adequate enforcement power to prevent illegal tying arrangements.<sup>30</sup>

Fears that ILECs could compel customers to purchase ILEC-provided CPE are therefore fanciful.

Claims that ILECs could subsidize bundles with "monopoly profits." MCI, Team Centrex and CompTel speculate that, if ILECs were allowed to bundle, they could

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<sup>29</sup> MCI Comments at 15; Comments of KMC Telecom, Inc., CC Docket Nos. 96-61, 98-183 at 5 (filed Nov. 23, 1998) ("KMC Comments"); Comments of The Consumer Electronics Manufacturers Association, CC Docket No. 96-61, 98-183 at 6 (filed Nov. 23, 1998) ("CEMA Comments").

<sup>30</sup> Comments of U S WEST, CC Docket Nos. 96-61, 98-183 at 8 (filed Nov. 23, 1998) ("U S WEST Comments").

subsidize bundles with "monopoly profits."<sup>31</sup> As Ameritech points out, however, "there is not even any realistic danger of cross-subsidization" because the "Part 64 allocation rules [will] assure that no cross-subsidization takes place."<sup>32</sup> In addition, due to "price cap regulation ... there is no ability [for ILECs] to shift costs since they cannot raise regulated rates."<sup>33</sup> Moreover, MCI and its cohorts have not even attempted to establish the predicate of their argument (that ILECs earn monopoly profits) and any attempt to do so would be doomed to failure. To the contrary, it is MCI and other IXCs that enjoy enormous gross margins on their long distance services, and thus are able to offset discounts on other elements of the bundle without sacrificing overall financial returns.

Claims that ILECs would discriminate in favor of customers that are vulnerable to competition. MCI also asserts that, if allowed to bundle, ILECs would discriminate in favor of customers that are vulnerable to competition.<sup>34</sup> However, ILECs are subject to non-discrimination obligations under Section 202 of the Act, and parallel state provisions, which prohibit discrimination against similarly situated customers and are vigorously enforced by the FCC. MCI's argument thus rests on the untenable assumptions that (1) ILECs would ignore their obligations and (2) regulators would look the other way.

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<sup>31</sup> MCI Comments at 15; Comments of Team Centrex, CC Docket Nos. 96-61, 98-183 at 3 (filed Nov. 23, 1998) ("Team Centrex Comments"); Comments of CompTel, CC Docket Nos. 96-61, 98-183 at 8 (filed Nov. 23, 1998) ("CompTel Comments").

<sup>32</sup> Ameritech Comments at 13.

<sup>33</sup> *Id.*

<sup>34</sup> MCI Comments at 16.



Specific claims regarding enhanced services. MCI specifically opposes permitting ILECs to bundle local exchange and enhanced services, arguing that ILECs have a greater ability to cross-subsidize enhanced service bundles because of operational overlap.<sup>35</sup> However, the Commission already has rules in place that require the separation of regulated and unregulated services and are more than adequate to assure against improper cost-shifting.<sup>36</sup> MCI, has not addressed these rules, let alone explained why they are not effective in this context.

Likewise, ISP/C and CIX contend that allowing ILECs to bundle enhanced service will make it more difficult to detect discrimination.<sup>37</sup> Again, however, the Act and the Commission's rules already prohibit such conduct. Moreover, because regulated service components of bundles will be separately available to customers and competitors, discrimination is virtually impossible. In any event, competitors will be aware of specific ILEC bundled offerings and perfectly capable of seeking redress from the FCC and state commissions if they believe discrimination has occurred.

Finally, CIX suggests that allowing ILECs to bundle enhanced services will reduce customer choice. Quite obviously, however, exactly the opposite is true. Allowing all carriers to bundle enhanced services and CPE with local and long distance service will enable competitors to develop and market innovative service and equipment

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<sup>35</sup> MCI Comments at 31.

<sup>36</sup> 47 C.F.R. §§ 32.27, 64.901.

<sup>37</sup> ISP/C Comments 6-7; CIX Comments at 8-10.

packages that otherwise would be unavailable. These packages will supplement, not replace, existing service options.<sup>38</sup>

Claims regarding ILEC affiliates. MCI and CompTel go so far as to suggest that even separate long distance companies that share a corporate parent with an ILEC should be prohibited from bundling local services if they also bundle CPE or enhanced services. This is nothing more than a transparent and exceptionally untimely petition for reconsideration of the Commission's Non-Accounting Safeguards Order.<sup>39</sup> Under that Order, companies sharing a parent with an ILEC already are permitted to resell local services along with long distance. Neither MCI nor CompTel has made a plausible showing that adding CPE or enhanced services into the mix creates any competitive concerns beyond those the FCC already has addressed and dismissed in Docket No. 96-149.

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<sup>38</sup> CIX also maintains that ILECs should be required to "(a) separately tariff all telecommunications services used by its affiliated ISP, (b) assess a separate line-item charge on the subscriber bill for each component of the bundled service, and (c) charge no less than the full cost of CPE or information service offered" so that telecom service is decoupled from information service and there will be no threat of illegal cross-subsidization in bundling. CIX Comments at 10. Adoption of such requirements plainly is not in the public interest, since they would preclude achieving the one-stop-shopping and discounted price benefits of bundling. In essence, CIX is asking the Commission to force ILECs to establish an artificial price umbrella, which plainly would disserve the public interest.

<sup>39</sup> MCI Comments at 31-32; CompTel Comments at 8.

**C. An ILEC-Only Bundling Restriction Would Be Profoundly Anticompetitive.**

In addition to being wholly unnecessary, asymmetrical bundling restrictions would be profoundly anticompetitive. As SBC points out, "the tenuous competitive balance which currently exists would be adversely affected" by imposing unique disabilities on ILECs.<sup>40</sup> Ameritech similarly notes that "permitting IXCs to bundle CPE while denying the same ability to ILECs will simply prohibit ILECs from being able to offer consumers a similar or even better package . . . . [I]t is the consumer that will suffer because of a failure to permit full competition. No one would benefit in that case except, of course, IXCs."<sup>41</sup> By imposing unnecessary bundling restriction on ILECs, the Commission would be picking winners and losers in the market – a role that plainly is inappropriate for a regulator to perform. "[T]he intent of the Tele-Communications Act and the Commission's decisions since its adoption is to provide parity in order to facilitate competition."<sup>42</sup> An asymmetric bundling policy, in contrast, would add yet another obstacle to the ILECs' ability to compete on par with large, well-financed competitors like AT&T/TCI and MCI WorldCom.<sup>43</sup>

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<sup>40</sup> SBC Comments at 8.

<sup>41</sup> Ameritech Comments at 14.

<sup>42</sup> SBC Comments at 8.

<sup>43</sup> For these reasons, the hollow claims of AT&T, MCI, and other competitors that an asymmetric bundling requirement would not harm the ILECs are patently wrong. See, e.g., AT&T Comments at 16, MCI WorldCom Comments at 24-27, ISP/C Comments at 6, KMC Comments at 5-6. AT&T, in fact, essentially concedes that ILECs would be  
(Continued...)

#### **IV. THE COMMISSION SHOULD CLARIFY THE INTERPLAY BETWEEN UNIVERSAL SERVICE FUNDING AND BUNDLED OFFERINGS.**

As discussed in GTE's opening comments, the Commission must clarify the relationship between bundled service offerings and eligibility for universal service support. In accordance with Section 214(e) of the Act, eligible telecommunications carriers (ELTEs) should be able to receive support for serving customers that purchase bundles of supported services along with CPE and/or toll usage in high-cost areas. Nonetheless, for universal service to be meaningful, there must be an obligation for each eligible telecommunications carrier to offer at least one set of services that meets or exceeds the list of supported services and is available at a price no greater than the maximum affordable rate determined by the state commission. Without such a requirement, a carrier could receive universal service support but limit its offerings to an expensive bundle that would be attractive only to the highest income customers in an area, turning the idea of affordable universal service on its head.

#### **V. CONCLUSION**

The record strongly supports elimination of the bundling restriction for all telecommunications service providers, regardless of their classification. Doing so would advance the mandate of Sections 11 and 706 by removing antiquated regulations, promoting the deployment and availability of advanced services, expanding consumer choice, and affording all carriers a full and fair opportunity to compete. Existing

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(...Continued)

placed at a competitive disadvantage if prohibited from bundling. AT&T Comments at 16.

regulatory safeguards assure that ILECs could not leverage any residual local exchange market power into other markets relevant to bundled offerings, rendering an *asymmetric prohibition on ILEC bundling both unwarranted and antithetical to robust competition*. Finally, the Commission should require every ELTEL that chooses to provide service bundles to offer at least one package that meets or exceeds the list of supported services but is available at a price no greater than the maximum affordable rate determined by the state commission.

Respectfully submitted,

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December 23, 1998

CERTIFICATE OF SERVICE

I, Ruth S. Massie, hereby certify that on this 23rd day of December, 1998, I caused copies of the foregoing "Reply Comments of GTE" to be sent via hand-delivery (\*) or via first-class mail, postage pre-paid to the following:

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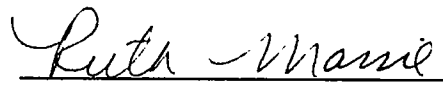
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